

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

POPLAR LEVEL ROAD SEWER CONSTRUCTION)	
DISTRICT FOR AN ADJUSTMENT OF RATES)	
PURSUANT TO THE ALTERNATIVE PROCEDURE)	CASE NO. 9523
FOR SMALL UTILITIES)	

O R D E R

On March 10, 1986, Poplar Level Road Sewer Construction District ("Poplar Level") filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation permits utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and, therefore, results in lower rates to the ratepayers.

As part of its endeavor to simplify and expedite the regulatory process, the Commission chose to perform a limited examination of Poplar Level's test period operations. The Commission's objective was to substantially reduce the need for written data requests and, therefore, the expense to the utility. On April 6, 1986, Sam Bryant and Mark Frost, of the Commission's Rates and Tariffs Division, conducted the limited examination of Poplar Level's financial records at Poplar Level's offices on Fern Valley Road, Louisville, Kentucky.

Under the normal procedure the Commission would issue a staff report outlining the staff's findings and recommendations. The Commission would then grant the utility ample time in which to file any comments it might have on the content of the report. However, taking into consideration the excellent condition of Poplar Level's financial records and the fact that there were no intervenors in this matter or protests entered the Commission is of the opinion that there is no need for a staff report in this instance.

Poplar Level requested rates which would produce an annual increase of \$9,768 on a test year basis. In this Order, the Commission has allowed the entire requested increase.

SCOPE

The scope of this examination was limited to ascertaining whether the 1985 operating expenses were representative of the normal annual operations and clarifying information relating to the rate application filed in this proceeding.

TEST PERIOD

Poplar Level has proposed and the Commission has accepted the 12-month period ending December 31, 1985, as the test period in this matter.

REVENUE AND EXPENSES

Poplar Level reported a net operating loss of \$20,618 for the test period. Poplar Level proposed reductions to test period interest income and maintenance expense which resulted in a net operating loss of \$15,600. The Commission has accepted Poplar

Level's pro forma revenues and expenses with the following exceptions:

Owner/Manager - Management Fee

Poplar Level reported a test period owner/manager fee of \$4,696. Upon the examination of Poplar Level's financial records it was discovered that this was actually payment of a monthly maintenance fee of approximately \$400 per month. Therefore, according to the Uniform System of Accounts for Water Systems the proper recording of this expense would be in Account No. 710-A Routine Maintenance Service Fee.

Depreciation Expense

Poplar Level proposed a pro forma reduction to maintenance of treatment and disposal plant of \$5,018 for a capital item, but failed to adjust depreciation expense for a normal recurring level of \$1,500. The Commission is of the opinion that this expenditure will benefit future periods and, therefore, has capitalized this amount over a 10-year period. Thus, test-period depreciation expense has been increased by \$502.

Other Operating Expenses

Poplar Level reported administrative and general salaries in the amount of \$9,000 and outside services in the amount of \$3,500 for the test period. It was found during the limited examination that the administrative and general salaries consisted entirely of Commissioner fees and that outside services consisted primarily of a \$3,000 retainer for Poplar Level's attorney. In its last case,

Case No. 7377,¹ the Commission found \$3,000 and \$1,000, respectively, reasonable for these expenditures. Although Poplar Level has continued to pay the higher level for a number of years, it is apparent that Popular Level based its proposed revenue requirement on the lower levels. Upon reviewing Poplar Level's cash flow including the proposed rates and providing an allowance for these expenditures, adequate funds will still be available for growth of the system; therefore the Commission accepts these adjustments for a reduction of \$9,200.

Therefore, Poplar Level's test period operations have been adjusted as follows:

	Poplar Level's Proposed Adjusted	Commission Adjustments	Commission Adjusted
Operating Revenue	\$ 33,873	-0-	\$33,873
Operating Expense	49,473	\$<8,698>	\$40,775
Operating Income <Loss>	<u>\$<15,600></u>	<u>\$ 8,698</u>	<u>\$<6,902></u>

REVENUE REQUIREMENTS

The Commission is of the opinion that Poplar Level's adjusted net loss in the amount of \$4,749 including interest income of \$2,153 results in a level of revenues which is unfair, unjust and unreasonable. The Commission in determining revenue requirements has considered numerous alternatives including the rate of return, debt service coverage and operating ratio methods. The Commission is of the opinion that the operating ratio method is the

¹ An Adjustment of Rates of the Poplar Level Road Sewer Construction District of Jefferson County, Kentucky, Order dated July 10, 1979.

appropriate method of determining revenue requirements in this instance because it will most adequately permit Poplar Level to pay its operating expenses. The Commission is further of the opinion that an operating ratio of 89 percent in this instance is fair, just and reasonable; therefore Poplar Level is entitled to the entire amount requested of \$9,768.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are the fair, just and reasonable rates to be charged by Poplar Level in that they should produce operating revenue of \$43,641.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A are the fair, just and reasonable rates to be charged by Poplar Level for sewer service rendered on and after the date of this Order.

2. Within 30 days of the date of this Order, Poplar Level shall file its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 4th day of June, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9523 DATED 6/4/86

The following rates and charges are prescribed for the customers in the area served by Poplar Level Road Sewer Construction District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Monthly Rate

<u>Customer Class</u>	<u>Rate</u>
Residential	\$ 9.00
Commercial	18.00